

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7957

BILL NUMBER: SB 457

DATE PREPARED: Feb 20, 2001

BILL AMENDED: Feb 20, 2001

SUBJECT: Community Revitalization Enhancement Districts.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill provides that a county legislative body may establish a Community Revitalization Enhancement District (CRED) if: (1) the county's annual rate of unemployment has been above the average annual statewide rate of unemployment during at least three of the preceding five years; (2) the county median income has either declined over the preceding ten years or has grown at a lower rate than the average annual statewide median income during at least three of the preceding five years; and (3) the population of the county has declined over the preceding ten years.

The bill also permits the executive of a municipality in St. Joseph County or Allen County to submit an application for the establishment of a CRED in the municipality if the submission of the application is approved by ordinance or resolution of the municipality. It permits the establishment of a CRED in St. Joseph County and in Allen County if certain criteria are met.

Effective Date: July 1, 2001.

Explanation of State Expenditures: (Revised) Under current law, CREDs may be established only in Delaware County and parts of Monroe County. This bill would allow the creation of additional districts in counties that meet certain unemployment, income, and population tests.

After notification of a designation of a CRED by an advisory commission on industrial development, the Budget Committee must review and the State Budget Agency must recommend the designation of the area. The Department of State Revenue (DOR) must calculate the income tax base period amount and the gross retail base period amount for the district. The Treasurer must establish an incremental tax financing fund for the county that establishes a district. Money in the fund does not revert to the General Fund at the end of the fiscal year. Annually, the DOR and the Budget Agency must estimate and certify the amount of income tax and sales tax which will be collected from the district.

Explanation of State Revenues: *Community Revitalization Tax Credit:* Taxpayers in the CRED may receive a Community Revitalization Enhancement District Tax Credit. The bill would extend the credit to districts in additional counties. The credit is available for qualified investments made for the redevelopment or rehabilitation of property located within a district. The expenditures must be made under a plan adopted by an advisory commission on industrial development and approved by the Indiana Department of Commerce.

The tax credit is based on 25% of the qualified investment. The tax credit may be used to reduce the taxpayer's tax liability under the following taxes: Gross Income, Adjusted Gross Income, Supplemental Net Income, County Adjusted Gross Income, County Option Income, County Economic Development Income, Bank, Savings and Loan Association, Insurance Premiums and Financial Institutions. The taxpayer may carry any excess credit over to the immediately following years, but is not entitled to a carryback or refund of any unused credit. A taxpayer may assign any part of the credit to a lessee of the property redeveloped or rehabilitated but must be in writing and reported to the Department of State Revenue.

A taxpayer is not entitled to a credit if they substantially reduce or cease to operate in another area of the state in order to relocate within the district.

This tax credit is similar to the existing Industrial Recovery Site/Dinosaur Credit Program. (However this new tax credit is more restrictive due to the requirements specified in the bill.) Since the Industrial Recovery Site credit was established in 1987 through 1999, 30 buildings were approved for approximately \$29 M in credits. These credits were based on an estimated \$133.3 M of qualified investments. The credits ranged from \$50,000 to \$9 M with the average credit being approximately \$1 M for an average of \$5 M of qualified investments.

Tax Increment: Currently, up to \$1 M of the incremental taxes which are generated in a CRED are captured. This revenue is transferred to the district's Industrial Development Fund. The covered taxes which are included are Sales Tax, Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, County Adjusted Gross Income Tax, County Option Income Tax, and County Economic Development Income Tax. State sales and income taxes are generally deposited in the State General Fund and Property Tax Replacement Fund. The State forgoes any new income or sales tax revenue up to \$1 M which would be generated by the development in a community revitalization enhancement district. If new districts are added in additional counties as a result of this bill, then those districts would also receive incremental revenue with a corresponding reduction in state revenue. The tax loss from the establishment of these districts is restricted to five years or less.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) This bill would allow the creation of districts in a county if the county meets unemployment, income, and population tests. Based on historical data, six additional counties could qualify for district designations under this bill (assuming that historical unemployment, income, and population trends continue). The counties that could qualify are Fayette, Grant, Knox, Perry, Vigo, and Wabash Counties. The districts would terminate at the end of five years or earlier if the county fails to meet the qualifying conditions for two years.

Additionally, the bill would allow the creation of districts in Allen and St. Joseph Counties if certain conditions exist. In Allen County the area must have at least 800,000 square feet with at least 50% of it vacant. There must be significant obstacles to redevelopment. There must be 400 fewer employees in the area than 15 years ago, and the taxing unit must have appropriated or pledged \$250,000 for addressing the

redevelopment obstacles.

In St. Joseph County, the area must have at least 1.5 M vacant square feet. There must be significant obstacles to redevelopment. There must be 18,000 fewer employees in the area than before the time of application, and the taxing unit must have appropriated or pledged \$100,000 for addressing the redevelopment obstacles.

Community Revitalization District: An ordinance to designate an area as a CRED must be approved or a resolution adopted by the legislative body of a municipality before an application can be made to an advisory commission on industrial development. An advisory commission on industrial development who is considering the designation of this type of district must have three additional members appointed by the Governor, the Lieutenant Governor and the Director of the Department of Workforce Development.

Tax Increment: Currently, incremental taxes which are generated from new development in the district may be captured and deposited into the Industrial Development Fund. The local taxing units which would normally receive a share of the total local option income taxes generated in the districts under current statute will not receive the incremental revenue generated. Money in the Industrial Development Fund to be pledged by the advisory commission to pay debt service on bonds and to maintain a Debt Service Reserve Fund.

The establishment of a CRED in the additional counties and the capture of these incremental taxes will be subject to local action and the ability of a community to meet the requirements set out in the bill.

State Agencies Affected: State Budget Agency, Department of State Revenue, Indiana Department of Commerce.

Local Agencies Affected: Allen, Fayette, Grant, Knox, Perry, St. Joseph, Vigo, and Wabash Counties.

Information Sources: *inews*, Indiana Department of Workforce Development, 1/16/2001; Bureau of the Census; STATS Indiana, Indiana Business Research Center.